ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This management's discussion and analysis ("MD&A") of the financial condition and results of operations of Columbia Care Inc. ("Columbia Care", the "Company", "us", "our" or "we") is supplemental to, and should be read in conjunction with, Columbia Care's audited consolidated financial statements and the accompanying notes for the years ended December 31, 2021, December 31, 2020 and December 31, 2019. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties. Future results could differ materially from those discussed below for many reasons, including the risks described in "Disclosure Regarding Forward-Looking Statements," Item 1A-Risk Factors" and elsewhere in this Annual Report on Form 10-K.

Columbia Care's financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Financial information presented in this MD&A is presented in thousands of United States dollars ("$" or "US$"), unless otherwise indicated.

OVERVIEW OF COLUMBIA CARE

Our principal business activity is the production and sale of cannabis. We strive to be the premier provider of cannabis-related products in each of the markets in which we operate. Our mission is to improve lives by providing cannabis-based health and wellness solutions through community partnerships, research, education and the responsible use of our products as a natural means to alleviate symptoms and improve the quality of life of our patients and customers.

COLUMBIA CARE OBJECTIVES AND FACTORS AFFECTING OUR PERFORMANCE

As one of the largest fully integrated operators in the global medical cannabis industry, our strategy to grow our business is comprised of the following key components:

- Expansion and development within and outside our current markets
- Patient-centric, provider-based model to leverage health and wellness focus
- Consistency of proprietary product portfolio, comprised of branded consumer products and pharmaceutical quality proprietary products
- Intellectual property and data-driven innovation

Our performance and future success are dependent on several factors. These factors are also subject to inherent risks and challenges, some of which are discussed below.

Branding

We have established a national branding strategy across each of the jurisdictions in which we operate. Maintaining and growing our brand appeal is critical to our continued success.

Regulation

We are subject to the local and federal laws in the jurisdictions in which we operate. Outside of the United States, our products may be subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods. We hold all required licenses for the production and distribution of our products in the jurisdictions in which we operate and continuously monitor changes in laws, regulations, treaties and agreements.

Product Innovation and Consumer Trends

Our business is subject to changing consumer trends and preferences, which is dependent, in part, on continued consumer interest in new products. The success of new product offerings, depends upon a number of factors, including our ability to (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products; (iv) price products competitively; (v) produce and deliver products in sufficient volumes and on a timely basis; and (vi) differentiate product offerings from those of competitors.

Growth Strategies

We have a successful history of growing revenue and we believe we have a strong strategy aimed at continuing our history of expansion in both current and new markets. Our future depends, in part, on our ability to implement our growth strategy including (i) product innovations; (ii) penetration of new markets; (iii) growth of wholesale revenue through third party retailers and distributors; (iv) future development of e-commerce and home delivery distribution capabilities; and (v) expansion of our cultivation and manufacturing capacity. Our ability to implement this growth strategy depends, among other things, on our ability to develop new products that appeal to consumers, maintain and expand brand loyalty, maintain and improve product quality and brand recognition, maintain and improve competitive position in our current markets, and identify and successfully enter and market products in new geographic areas and segments.

SELECTED FINANCIAL INFORMATION

The following tables set forth selected consolidated financial information derived from our audited consolidated financial statements, the consolidated financial statements, and the respective accompanying notes prepared in accordance with U.S. GAAP.

During the periods discussed herein, our accounting policies have remained consistent. The selected and summarized consolidated financial information below may not be indicative of our future performance

Statement of operations:

	For the Year Ended			2021 vs. 2020		2020 vs 2019	
	December 31, 2021	December 31, 2020	December 31, 2019	$ Change	% Change	$ Change	% Change
Revenues	$ 460,080	$ 179,503	$ 77,459	$280,577	156%	$102,044	132%
Cost of sales related to inventory production	(258,402)	(114,249)	(57,777)	(144,153)	126%	(56,472)	98%
Cost of sales related to business combination fair value adjustments to inventories	(7,663)	(3,111)	—	(4,552)	146%	(3,111)	100%
Gross profit	194,015	62,143	19,682	131,872	212%	42,461	216%
Goodwill impairment	(72,328)	—	—	(72,328)	100%	—	0%
Selling, general and administrative expenses	(232,052)	(142,355)	(123,586)	(89,697)	63%	(18,769)	15%
Operating expenses	(304,380)	(142,355)	(123,586)	(162,025)	114%	(18,769)	15%
Other (expense) income, net	(36,349)	(55,634)	4,233	19,285	-35%	(59,867)	-1414%
Income tax (expense) benefit	(139)	16,197	(1,503)	(16,336)	-101%	17,700	-1178%
Net loss	(146,853)	(119,649)	(101,174)	(27,204)	23%	(18,475)	18%
Net loss attributable to non-controlling interest	(3,756)	(23,862)	(4,909)	20,106	-84%	(18,953)	386%
Net loss attributable to Columbia Care Inc.	$ (143,097)	$ (95,787)	$ (96,265)	$ (47,310)	49%	$ 478	0%
Loss per share attributable to Columbia Care Inc.—based and diluted	$ (0.42)	$ (0.41)	$ (0.46)	$ (0.01)	3%	$ 0.05	-10%
Weighted average number of shares outstanding—basic and diluted	338,754,694	232,576,117	209,992,187				

Summary of balance sheet items:

	December 31, 2021	December 31, 2020
Total Assets	$1,376,512	$727,527
Total Liabilities	$ 825,689	$440,578
Total Long-Term Liabilities	$ 581,692	$291,697
Total Equity	$ 550,823	$286,949

RESULTS OF OPERATIONS

Comparison of the Years Ended December 31, 2021, 2020 and 2019

The following tables summarize our results of operations for the years ended December 31, 2021, 2020, and 2019:

	For the Year Ended			2021 vs. 2020		2020 vs. 2019	
	December 31, 2021	December 31, 2020	December 31, 2019	$ Change	% Change	$ Change	% Change
Revenues	$ 460,080	$ 179,503	$ 77,459	$ 280,577	156%	$102,044	132%
Cost of sales related to inventory production	(258,402)	(114,249)	(57,777)	(144,153)	126%	(56,472)	98%
Cost of sales related to business combination fair value adjustments to inventories	(7,663)	(3,111)	—	(4,552)	—	(3,111)	0%
Gross profit	194,015	62,143	19,682	131,872	212%	42,461	216%
Goodwill impairment	(72,328)	—	—	(72,328)	100%	—	0%
Selling, general and administrative expenses	(232,052)	(142,355)	(123,586)	(89,697)	63%	(18,769)	15%
Operating expenses	(304,380)	(142,355)	(123,586)	(162,025)	114%	(18,769)	15%
Loss from operations	(110,365)	(80,212)	(103,904)	(30,153)	38%	23,692	-23%
Other (expense) income, net	(36,349)	(55,634)	4,233	19,285	-35%	(59,867)	-1414%
Loss before provision for income taxes	(146,714)	(135,846)	(99,671)	(10,868)	8%	(36,175)	36%
Income tax (expense) benefit	(139)	16,197	(1,503)	(16,336)	-101%	17,700	-1178%
Net loss	(146,853)	(119,649)	(101,174)	(27,204)	23%	(18,475)	18%
Net loss attributable to non-controlling interest	(3,756)	(23,862)	(4,909)	20,106	-84%	(18,953)	386%
Net loss attributable to Columbia Care Inc.	$(143,097)	$ (95,787)	$ (96,265)	$ (47,310)	49%	$ 478	0%

Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

Revenue

The increase in revenue of $280,577 for the year ended December 31, 2021, as compared to the prior year period was primarily driven by the expansion of our existing wholesale and retail network and our recent acquisitions. Our revenue is predominantly generated by retail sales, which increased $209,877 during the year ended December 31, 2021, as compared to the prior year.

During the year ended December 31, 2021, we experienced a revenue increase of $188,998 due to organic growth which includes our 2020 acquisitions of TGS and Project Cannabis. Our existing wholesale and retail network contributed to revenue growth of $184,637 and the expansion of new wholesale and retail facilities contributed to revenue growth of $4,361 as compared to the prior period. Our acquisitions of The Healing Center, Cannascend, Corsa Verde, Green Leaf Medical and Medicine Man contributed to an additional $91,578 of revenue during the year ended December 31, 2021, as compared to the prior year. Revenue increased by $60,625 related to our acquired retail facilities and $30,953 related to our acquired wholesale facilities.

Cost of sales

The increase in cost of sales of $148,705 for the year ended December 31, 2021, as compared to the prior year period was primarily driven by the expansion of our existing wholesale and retail network and our recent acquisitions.

During the year ended December 31, 2021, we experienced a cost of sales increase of $99,403 due to organic growth which includes our 2020 acquisitions of TGS and Project Cannabis. Our existing wholesale and retail network contributed to a cost of sales growth of $94,524 and the expansion of new wholesale and retail facilities contributed to a cost of sales growth of $4,878 as compared to the prior period. Our acquisitions of The Healing Center, Cannascend, Corsa Verde, Green Leaf Medical and Medicine Man contributed to an additional $49,301 of cost of sales during the year ended December 31, 2021, as compared to the prior year. Cost of sales increased by $27,409 related to our acquired retail facilities and $21,892 related to our acquired wholesale facilities.

Gross Margin

The increase in gross margin of $131,872 for the year ended December 31, 2021, as compared to the prior year period was primarily driven by the expansion of our existing wholesale and retail network and our recent acquisitions.

During the year ended December 31, 2021, we experienced a gross margin increase of $89,595 due to organic growth which includes our 2020 acquisitions of TGS and Project Cannabis. Our existing wholesale and retail network contributed to a gross margin growth of $90,113 coupled with a gross margin loss of $517 as compared to the prior period. Our acquisitions of The Healing Center, Cannascend, Corsa Verde, Green Leaf Medical and Medicine Man contributed to an additional $42,277 of gross margin during the year ended December 31, 2021, as compared to the prior year. Gross margin increased by $33,216 related to our acquired retail facilities and $9,061 related to our acquired wholesale facilities.

Operating Expenses

The increase of $162,025 in operating expenses was primarily attributable to impairment charges of $72,328 during the year ended December 31, 2021, and an increase of $89,697 in selling, general and operating expenses, as compared to the prior year period. The increase in selling, general and operating expenses was primarily attributable to an increase in salary and benefits of $38,106, depreciation and amortization of $30,268, operating facility costs of $12,230 and advertising and promotion expenses of $10,172, as we expanded our operations and increased the size and scope of our administrative functions.

Other Expense (Income), Net

The decrease in other expense (income), net for the year ended December 31, 2021, as compared to the prior year, was primarily due to a remeasurement of contingent consideration of $81,119 as discussed in footnote 6 of our audited consolidated financial statements for the year ended December 31, 2021 and a favorable change in fair value of derivative liability of $25,031 as a result of conversion of Convertible debt during the year, which was partially offset by increase in the acquisition and settlement of pre-existing relationships of $61,460.

Income Tax Benefit and Provisions

The Company recorded income tax expense of $139 for the year ended December 31, 2021 as compared to income tax benefit of $16,197 for the year ended December 31, 2020.

The net tax expense of $139 for the year ended December 31, 2021 includes current tax expense of $26,251, deferred tax benefit of $27,942 and change in valuation allowances of $1,830.

The increase in current tax expense is a direct result of the Company’s increasing gross margin. The Company is subject to Section 280E of the Internal Revenue Code and is forced to disallow costs not attributable to cost of goods sold in its cannabis businesses. Current tax expense is largely offset by the significant deferred tax liabilities recorded as part of the company's acquisition activity. These deferred tax liabilities are exhausted over time with current year activity resulting in deferred tax benefit which reduces overall tax expense

Our future financial results are subject to significant potential fluctuations caused by, among other things, growth of sales volume in new and existing markets and our ability to control operating expenses. In addition, our financial results may be impacted significantly by changes to the regulatory environment in which we operate, both on a local, state and federal level.

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Revenue

The increase in revenue of $102,044 for the year ended December 31, 2020 , as compared to the prior year period was primarily driven by expansion of our dispensary network, additional sales through our existing dispensaries and our recent acquisitions. Our revenue is predominantly generated by retail sales, which increased $93,431 during the year ended December 31, 2020 as compared to the prior year.

During the year ended December 31, 2020, we experienced $54,385 of organic growth as a result of increase in same store sales year over year. Same store sales are calculated based upon our stores that have been open for at least 12 full fiscal months. During the year ended December 31, 2020, we operated 22 additional dispensaries (on a weighted average basis) as compared to the prior year. These additional dispensaries contributed to a revenue growth of $7,008 as compared to the prior year. Our acquisitions contributed an additional $40,652 of revenue during the year ended December 31, 2020 as compared to the prior year.

Cost of sales

The increase in cost of sales for the year ended December 31, 2020, as compared to the prior year was primarily driven by our recent acquisitions and additional sales through our existing dispensaries. During the year ended December 31, 2020, we experienced an increase in cost of sales of $30,023 related to an increase in same store sales year over year. Same store sales are calculated based upon our stores that have been open for at least 12 full fiscal months. During the year ended December 31, 2020, we operated 8 additional Cultivation, Manufacturing and/or Retail markets as compared to the prior year. These additional dispensaries contributed increased cost of sales of $4,917 as compared to the prior year period. Our acquisitions contributed to an increase in cost of sales of $24,644 during the year ended December 31, 2020 as compared to the prior year.

Gross Margin

Gross profit for the year ended December 31, 2020 increased to 34.6% from 25.4% as compared to the prior year, an increase of 9.21%. Gross profit increased 5.7% related to organic growth. In addition, gross profit increased by 3.52% due to our recent acquisitions.

Operating Expenses

The increase of $18,769 in operating expenses for the year ended December 31, 2020, as compared to the prior year period, was primarily attributable to an increase in salary and benefits of $7,587, operating facility costs of $6,321, depreciation and amortization of $6,101, operating office and general expenses of $2,449, loss on disposal group of $1,969 and other fees and expenses of $2,304 as we expanded our operations and increased the size and scope of our administrative functions. These higher expenses were partially offset by $6,284 of lower professional fees in the current year.

Other Expense (Income), Net

The increase in other expense (income), net for the year ended December 31, 2020, as compared to the prior year, was primarily due to an increase in the earnout liability for TGS of $21,757, an indemnification expense of $14,195, an increase in interest expense of $7,577 and an increase in the fair value of a derivative liability of $11,745.

Income Tax Benefit and Provisions

The benefit for income taxes for the year ended December 31, 2020 was $16,197 compared to a provision for income taxes of $1,503 for the year ended December 31, 2019.

Non-GAAP Measures

We use certain non-GAAP measures, referenced in this MD&A. These measures are not recognized measures under GAAP and do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies. Accordingly, these measures should not be considered in isolation from nor as a substitute for our financial information reported under GAAP. We use non-GAAP measures including EBITDA, Adjusted EBITDA and Adjusted EBITDA margin which may be calculated differently by other companies. These non-GAAP measures and metrics are used to provide investors with supplemental measures of our operating performance and liquidity and thus highlight trends in our business that may not otherwise be apparent when relying solely on GAAP measures. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented. We also recognize that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of companies within our industry. Finally, we use non-GAAP measures and metrics in order to facilitate evaluation of operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of executive compensation.

The following table provides a reconciliation of net loss for the period to EBITDA and Adjusted EBITDA for the years ended December 31, 2021, 2020, and 2019:

	Year Ended		
	December 31, 2021	December 31, 2020	December 31, 2019
Net loss	$(146,853)	$(119,649)	$(101,174)
Income tax	139	(16,197)	1,503
Depreciation and amortization	53,002	19,651	8,690
Interest expense, net and debt amortization	30,014	6,336	(1,241)
EBITDA (Non-GAAP measure)	$ (63,698)	$(109,859)	$ (92,222)
Adjustments:			
Share-based compensation	25,018	29,805	38,405
Goodwill impairment	72,328	—	—
Fair-value mark-up for acquired inventory	7,663	3,111	—
Adjustments for acquisition and other non-core costs*	9,954	7,477	839
Fair-value changes on derivative liabilities	(13,286)	11,745	—
Loss on conversion of Convertible notes	1,580	—	—
Impairment on disposal group	2,000	1,969	—
Acquisition and settlement of pre-existing relationships	75,655	14,195	—
Earnout liability accrual	(59,362)	21,757	—
Adjusted EBITDA (Non-GAAP measure)	$ 57,852	$ (19,800)	$ (52,978)
Revenue	$ 460,080	$ 179,503	$ 77,459
Adjusted EBITDA (Non-GAAP measure)	57,852	(19,800)	(52,978)
Adjusted EBITDA margin (Non-GAAP measure)	12.6%	-11.0%	-68.4%
Revenue	$ 460,080	$ 179,503	$ 77,459
Gross profit	194,015	62,143	19,682
Gross margin	42.2%	34.6%	25.4%

* Acquisition and other non-core costs include costs associated with acquisitions, litigation expenses and COVID-19 expenses.

Adjusted EBITDA

The increase in Adjusted EBITDA for the year ended December 31, 2021, as compared to the prior year period, was primarily driven by improved gross margins offset by increases in facility costs, salary and benefits costs.

The increase in Adjusted EBITDA for the year ended December 31, 2020, as compared to the prior year period, was primarily driven by improved gross margins offset by increases in facility costs, salary and benefits costs.

Our future financial results are subject to significant potential fluctuations caused by, among other things, growth of sales volume in new and existing markets and our ability to control operating expenses. In addition, our financial results may be impacted significantly by changes to the regulatory environment in which we operate, both on a local, state and federal level.

Liquidity and Capital Resources

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures and for general corporate purposes. Historically, we have relied on external financing as our primary source of liquidity. Our ability to fund our operations and to make capital expenditures depends on our ability to successfully secure financing through issuance of debt or equity, as well as our ability to improve our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

We are currently meeting our obligations as they become due and are earning revenues from our operations. However, we have sustained losses since inception, we may require additional capital in the future. We estimate that based on our current business operations and working capital, we will continue to meet our obligations as they become due in the short term. As we continue to seek growth through expansion or acquisition, our cash flows requirements and obligations could materially change. As of December 31, 2021, we did not have any significant external capital requirements.

Recent Financing Transactions

February 2022 Private Placement

On February 3, 2022, we closed the private placement of $185,000 aggregate principal amount of the 2026 Notes. The 2026 Notes are senior secured obligations of the Company and were issued at 100.0% of face value. In connection with the offering of the 2026 Notes, the Company received binding commitments to exchange approximately $31,750 of the Company's May 2020 Private Placement Notes, pursuant to private agreements in accordance with the trust indenture, for an equivalent amount of 2026 Notes plus accrued but unpaid interest and any negotiated premium thereon. As a result of the note exchanges, the Company received aggregate gross proceeds of $153,250 in cash pursuant to the offering of the 2026 Notes.

Mortgage

In December 2021, we entered into a term loan and security agreement with a bank. The agreement provides for $20,000 mortgage on real property and carries interest at a rate per annum equal to Wall Street prime rate plus 2.25%. The debt is repayable in 59 monthly installments, of $138 each and a final balloon payment due on January 1, 2027, which is currently estimated at $16,998. In connection with this mortgage, we incurred financing costs of $655.

Cash Flows

Net cash provided in operating, investing and financing activities for the years ended December 31, 2021, 2020, and 2019, were as follows:

	Year Ended		
	December 31, 2021	December 31, 2020	December 31, 2019
Net cash used in operating activities	$ (523)	$(49,650)	$ (67,047)
Net cash used in investing activities	(191,350)	(27,322)	(90,134)
Net cash provided by financing activities	202,437	89,994	158,861
Net increase in cash and cash equivalents	$ 10,564	$ 13,022	$ 1,680

Operating Activities

During the year ended December 31, 2021, operating activities used $523 of cash, primarily resulting from net loss of $146,853, gain on remeasurement of contingent consideration of $59,362, change in derivative liability of $13,286, and decrease in deferred taxes of $26,112, partially offset by goodwill impairment charge of $72,328, depreciation and amortization of $53,002, equity-based compensation expense of $25,018, debt amortization expense of $6,068 and impairment on disposal group of $2,000 and net changes in operating assets and liabilities of $81,424.

During the year ended December 31, 2020, operating activities used $49,650 of cash, primarily resulting from net loss of $119,649, partially offset by equity-based compensation expense of $29,805, depreciation and amortization of $19,651, debt amortization expense of $2,189 and impairment on disposal group of $1,969.

During the year ended December 31, 2019, operating activities used $67,047 of cash, primarily resulting from net loss of $101,174 and net cash used in changes in operating assets and liabilities of $12,100, partially offset by equity-based compensation expense of $32,896, depreciation and amortization of $8,690 and deferred compensation expense of $5,509. Cash used due to changes in operating assets and liabilities was primarily due to increase in inventory of $12,667.

Investing Activities

During the year ended December 31, 2021, investing activities used $191,350 of cash, consisting of cash paid for acquisitions of $50,762, purchases of property and equipment of $117,506, cash paid for other assets of $15,792, and cash paid for deposits of $7,019.

During the year ended December 31, 2020, investing activities used $27,322 of cash, consisting of purchases of property and equipment of $42,885 and cash paid for deposits of $5,688, partially offset by cash received from sale leasebacks of $11,927, acquisitions of $3,821 and deposits of $6,676.

During the year ended December 31, 2019, investing activities used $90,134 of cash, consisting of purchases of property and equipment of $77,445, the issuance of a note receivables of $17,420, cash for loans under the CannAscend and Corsa Verde agreements of $11,511 and cash paid for deposits of $6,623, partially offset by cash received from sale leasebacks of $19,614 and deposits of $3,697.

Financing Activities

During the year ended December 31, 2021, financing activities provided $202,437 of cash, consisting of $133,195 and $90,655 in net proceeds received from issuance of Common shares and Debt, respectively, partially offset by debt repayment of $9,950 and lease liability payments of $9,664.

During the year ended December 31, 2020, financing activities provided $89,994 of cash, consisting of $89,379 in gross proceeds received from issuance of debt as reduced by issuance costs of $3,548 and the sale of membership interest of a subsidiary of $5,509, partially offset by lease liability payments of $734.

During the year ended December 31, 2019, financing activities provided $158,861 of cash, consisting of $157,359 in proceeds received from the issuance of equity and proceeds from sale leasebacks of $5,709, repurchases of common shares of $2,414 and debt repayment of $1,795.

Contractual Obligations and Commitments

The following table summarizes contractual obligations as of December 31, 2021 and the effects that such obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Period						
	Total	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6 and beyond**
Lease commitments	$443,954	$ 34,119	$32,876	$31,888	$ 27,888	$25,644	$291,539
Sale-Leaseback commitments	229,447	9,461	9,766	10,082	10,407	10,743	178,988
Term debt (principal)	69,965	31,750	38,215	—	—	—	—
Acquisition related term debt	3,314	100	105	109	113	118	2,769
Interest on term debt	8,754	5,443	1,951	122	118	113	1,007
Convertible debt (principal)	80,100	—	5,600	—	74,500	—	—
Interest on convertible debt	16,151	4,750	4,740	4,470	2,191	—	—
Mortgage notes (principal and interest)	25,172	1,573	1,612	1,662	1,661	1,666	16,998
Closing promissory note (principal and interest)	5,557	1,845	1,725	1,605	382	—	—
Project Cannabis real estate notes (principal and interest)	8,110	540	2,420	5,150	—	—	—
Sun bulb indemnification	11,425	11,425	—	—	—	—	—
Total contractual obligations	$901,949	$101,006	$99,010	$55,088	$117,260	$38,284	$491,301

The above table excludes purchase orders for inventory in the normal course of business.

Off-Balance Sheet Arrangements

As of the date of this filing, we do not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of our operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

Changes In or Adoption of Accounting Practices

The following U.S. GAAP standards have been recently issued by the Financial Accounting Standards Board.

In January 2020, the FASB issued ASU No. 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The update among other things clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments—Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The update is effective for fiscal years beginning after December 15, 2021. We are evaluating the impact of this update on its consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, "Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("**ASU 2020-06**"), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. Among other changes, ASU 2020-06 removes from U.S. GAAP the liability and equity separation model for convertible instruments with a cash conversion feature, and as a result, after adoption, entities will no longer separately present in equity an embedded conversion feature for such debt. Similarly, the embedded conversion feature will no longer be amortized into income as interest expense over the life of the instrument. Instead, entities will account for a convertible debt instrument wholly as debt unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC Topic 815, Derivatives and Hedging, or (2) a convertible debt instrument was issued at a substantial premium. Among other potential impacts, this change is expected to reduce reported interest expense, increase reported net income, and result in a reclassification of certain conversion feature balance sheet amounts from stockholders' equity to liabilities as it relates to the Company's convertible senior notes. Additionally, ASU 2020-06 requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share (EPS), which is consistent with our accounting treatment under the current standard. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted for fiscal years beginning after December 15, 2020 and can be adopted on either a fully retrospective or modified retrospective basis. We early adopted the new standard on January 1, 2021. The adoption of the standard did not have a material impact on our Consolidated Financial Statements.

Critical Accounting Estimates

We make judgements, estimates and assumptions about the future that affect reported of assets and liabilities, and revenues and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

The preparation of our consolidated financial statements requires us to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Judgements estimates and assumptions with the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Business Combinations

We account for business combinations under the acquisition method of accounting, which requires us to recognize separately from goodwill, the assets acquired and the liabilities assumed at their acquisition date fair values. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recognized in our consolidated statements of operations. Accounting for business combinations requires management to make significant estimates and assumptions, especially at the acquisition date including estimates for intangible assets, contractual obligations assumed, pre-acquisition contingencies, and contingent consideration, where applicable. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based, in part, on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain acquired intangible assets under the income approach include growth in future expected cash flows from product sales, customer contracts, revenue growth rate, customer ramp-up period and discount rates. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

Goodwill

Goodwill represents the excess of the aggregate purchase price over the fair value of net identifiable assets acquired in a business combination. Goodwill is not amortized and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In the valuation of goodwill, we make assumptions regarding estimated future cash flows to be derived from our business. If these estimates or their related assumptions change in the future, we may be required to record impairment for these assets.

We have the option to first perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. However, we may elect to bypass the qualitative assessment and proceed directly to the quantitative impairment tests. The first step of the impairment test involves comparing the fair value of the reporting unit to its net book value, including goodwill. If the net book value of the reporting unit exceeds its fair value, we would perform the second step of the goodwill impairment test to determine the amount of the impairment loss. We perform an annual assessment of our goodwill as of first day of the fourth quarter, or more frequently, to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. If events or circumstances do not indicate that the fair value of a reporting unit is below its carrying amount, then goodwill is not considered to be impaired and no further testing is required, if otherwise, we compare the fair value of our reporting unit to its carrying value, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. We monitor the indicators for goodwill impairment testing between annual tests.

Recoverability of Long-lived Assets

We evaluate the recoverability of our long-lived tangible and intangible assets with finite useful lives for impairment when events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Such trigger events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, a significant adverse change in legal factors or in the business climate, including those resulting from technology advancements in the industry, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows we expect to generate from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. We perform impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. We recognized impairment of $2,000 and $1,969 recognize any impairment loss for long-lived assets for the years ended December 31, 2021 and December 31, 2020. Assets to be disposed of or held for sale would be separately presented on the balance sheets and reported at the lower of their carrying amount or fair value less costs to sell, and would no longer be depreciated or amortized.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Our financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, deposits and other current assets, accounts payable, accrued expenses, current taxes payable and other current liabilities like interest payable and payroll liabilities, derivative liability, debt and lease liabilities. The fair values of cash and restricted cash, accounts and notes receivable, deposits, accounts payable and accrued expenses and other current liabilities like interest payable and payroll liabilities, short-term debt and lease liabilities approximate their carrying values due to the relatively short-term to maturity or because of the market rate of interest used on initial recognition. Columbia Care classifies its derivative liability as fair value through profit and loss (FVTPL).

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of contained within the hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Our assets measured at fair value on a nonrecurring basis include investments, assets and liabilities held for sale, long-lived assets and indefinite-lived intangible assets. We review the carrying amounts of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable or at least annually, for indefinite-lived intangible assets. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered Level 3 measurements.